

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

APPLICATION OF JONATHAN CREEK WATER)	CASE NO.
DISTRICT FOR AN ALTERNATIVE RATE)	2017-00323
ADJUSTMENT)	

ORDER

On August 3, 2017, Jonathan Creek Water District (“Jonathan Creek”) tendered an application (“Application”) with the Commission pursuant to 807 KAR 5:076 requesting to adjust its rates for water service. By letter dated August 9, 2017, the Commission notified Jonathan Creek that the Application was deemed filed. In its Application, Jonathan Creek requested rates that would increase annual water sales revenues by \$98,843, an 11.35 percent increase to pro forma present rate water sales revenues. By Order dated August 16, 2017, the Commission established a procedural schedule through which Jonathan Creek’s Application would be reviewed. Finding that the procedural schedule should be amended to permit Commission Staff (“Staff”) additional time to complete the Staff report, the Commission, on its own motion, ordered that the procedural schedule be amended. On September 21, 2017, the Commission issued an amended procedural schedule extending the time for Staff’s review of Jonathan Creek’s application. There are no interveners in this case.

Pursuant to the amended procedural Order, on November 30, 2017, Staff issued a report (“Report”) summarizing its findings regarding Jonathan Creek’s requested rate adjustment. In its Report, Staff found that Jonathan Creek’s adjusted test-year operations support an overall revenue requirement of \$990,723 and that an annual

revenue increase of \$95,164, or 10.92 percent, is necessary to generate the overall revenue requirement. Staff further found that Jonathan Creek should change the depreciable lives assigned to certain assets when calculating depreciation for accounting and ratemaking purposes.

On December 11, 2017, Jonathan Creek filed with the Commission its comments on Staff's report wherein it did not object to any of the Staff's findings. Jonathan Creek, however, did request that the Commission include the Commissioner's fees of \$24,400, previously removed by Staff, and provided documentation from the Marshall County fiscal court and its county judge/executive of approval to compensate the water district's Board of Commissioners. With its comments, Jonathan Creek did not request that a conference or hearing be held.¹

WATER LOSS

Pursuant to 807 KAR 5:066, Section (6)3, water loss is limited to 15 percent for ratemaking purposes. As noted in the Staff Report that was issued on November 30, 2017, Jonathan Creek reported a test-year water loss of 21.55 percent. Accordingly, Staff reduced test-year expenses by \$5,340 to account for the 6.55 percent excess water loss.²

The Commission is placing greater emphasis on monitoring utilities that consistently exceed the fifteen 15 percent unaccounted-for water loss threshold and strongly encourages Jonathan Creek to pursue reasonable actions to reduce its

¹ Letter from David Lovett, Superintendent, Jonathan Creek Water District, to Gwen R. Pinson Executive Director, Public Service Commission (Dec. 11, 2017).

² Staff Report at 10.

unaccounted-for water loss. Failure by Jonathan Creek to make significant progress towards reducing unaccounted-for water loss may cause the Commission to pursue additional action with the utility.

BACKGROUND

Jonathan Creek is a water district organized pursuant to KRS Chapter 74. It owns and operates a water distribution system through which it provides water service to approximately 2,408 customers that reside in Marshall County, Kentucky.³ Jonathan Creek produces its own water. This is Jonathan Creek's first general rate adjustment since 2004.

The calendar year ended December 31, 2016, was used as the test year to determine the reasonableness of Jonathan Creek's existing and proposed water rates, as required by 807 KAR 5:076, Section 9.

MODIFICATION TO STAFF'S FINDING'S

In its Report, Staff reduced operating expenses by \$24,400 to remove test-year payments to the water district's Board of Commissioners after Jonathan Creek was initially unable to provide documentation from the Marshall County fiscal court and the county judge/executive that the Commissioners fees had been approved.

In its response to the Staff Report, Jonathan Creek supplied a letter from the county judge/executive of Marshall County authorizing the fees paid to the water districts commissioners.⁴ The Commission finds that in light of the information

³ *Annual Report of Jonathan Creek Water District to the Public Service Commission for the Calendar Year Ended December 31, 2016* ("Annual Report") at 12 and 48.

⁴ Response to Commission's Staff Report at 2.

contained in Jonathan Creek's response to the Staff Report regarding the Commissioner's fees, the fees should be included in pro forma operations.

SUMMARY OF REVENUE AND EXPENSES

Due to the inclusion of the Commissioner's fees that were previously removed by Staff, the Commission finds Jonathan Creek's pro forma operations should be adjusted as follows:

	<u>Staff Pro Forma Operations</u>	<u>Commission Adjustments</u>	<u>Commission Pro Forma Operations</u>
Operating Revenues	\$ 895,239		\$ 895,239
Operating Expenses	<u>875,707</u>	<u>\$ 24,400</u>	<u>900,107</u>
Net Operating Income	19,532	(24,400)	(4,868)
Interest Income	<u>320</u>		<u>320</u>
Income Available for Debt Service	<u>\$ 19,852</u>	<u>\$ (24,400)</u>	<u>\$ (4,548)</u>

REVENUE REQUIREMENTS

Based upon the Commission's findings and determinations herein, Jonathan Creek requires an increase in revenues of \$119,564, or 13.72 percent above pro forma present rate revenues adjusted for the commissioner's fees, as shown below:

Pro Forma Operating Expenses	\$ 900,107
Plus: Average Annual Debt Payments	<u>115,016</u>
Overall Revenue Requirement	1,015,123
Less: Other Operating Revenue	(24,073)
Interest Income	<u>(320)</u>
Revenue Required From Rates	990,730
Less: Pro Forma Present Rate Water Revenues	<u>(871,166)</u>
Required Revenue Increase	<u>\$ 119,564</u>
Percent Increase	<u>13.72%</u>

RATE DESIGN

The Commission finds that in the absence of a cost-of-service study, the across-the-board method as proposed by Staff is an appropriate and equitable method to allocate the increased cost to Jonathan Creeks' customers. The rates in the Appendix attached to this Order will produce water rate revenues of approximately \$990,730. The revenue required is determined by the Commission herein to be reasonable. The monthly bill of a typical residential customer using 4,000 gallons will increase from \$29.12 to \$33.12, or 13.74 percent.

SUMMARY

The Commission, after consideration of the evidence of record and being otherwise sufficiently advised, finds that:

1. Jonathan Creek's pro forma operations, as presented in this Order, is adjusted to account for the additional expense that will be incurred by including Jonathan Creek's fees paid to its board of commissioners.
2. The Commission has historically used a Debt Service Coverage method to calculate the revenue requirement for water districts or associations with outstanding

long-term debt. Application of the Commission's DSC method to Jonathan Creek's pro forma operations results in an Overall Revenue Requirement of \$1,015,123. A revenue increase of \$119,564 from water service rates is necessary to generate the overall revenue requirement.

3. The water service rates proposed by Jonathan Creek should be denied.

4. The water service rates set forth in the Appendix to this Order are fair, just, and reasonable and should be approved.

IT IS THEREFORE ORDERED that:

1. The findings contained in the Staff Report are adopted and incorporated by reference into this Order as if fully set out herein.

2. The rates proposed by Jonathan Creek County are denied.

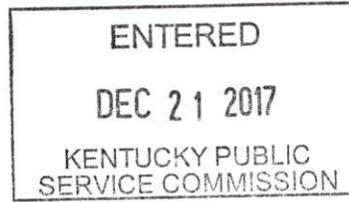
3. The rates set forth in the Appendix to this Order are approved for services rendered by Jonathan Creek on and after the date of this Order.

4. Within 20 days of the date of this Order, Jonathan Creek shall file with this Commission, using the Commission's electronic Tariff Filing System, new tariff sheets setting forth the rates and charges approved herein and their effective date, and stating that the rates and charges were authorized by this Order.

5. Jonathan Creek shall use the mid-point of the depreciable life ranges found reasonable in the National Association of Regulatory Utility Commissioners' publication titled Depreciation Practices for Small Utilities, as proposed in the application and agreed upon by Staff, to depreciate water plant assets for accounting purposes in all future reporting periods. No adjustment to accumulated depreciation, or

retained earnings should be made to account for this change in the accounting estimate.

By the Commission



ATTEST:


Executive Director

APPENDIX

APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE
COMMISSION IN CASE NO. 2017-00323 DATED **DEC 21 2017**

The following rates and charges are prescribed for the customers in the area served by Jonathan Creek Water District. All other rates and charges not specifically mentioned herein shall remain the same as those in effect under authority of the Commission prior to the effective date of this Order.

Monthly Water Rates

Minimum Bills Based on Meter Size (Zero Usage)

Meter Size	Customer Charge
5/8-Inch x 3/4-Inch Meter	\$6.96 per month
1-Inch Meter	13.45 per month
1 1/2-Inch Meter	24.29 per month
2-Inch Meter	37.28 per month
3-Inch Meter	67.61 per month
6-Inch Meter	219.22 per month
All Usage	6.54 per 1,000 Gallons

*Jonathan Creek Water District
7564 U. S. Highway 68E
P. O. Box 414
Benton, KY 42025

*David Lovett
Superintendent
Jonathan Creek Water District
7564 U. S. Highway 68E
P. O. Box 414
Benton, KY 42025